

SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made this 3rd day of May, 2010 (Effective Date) by and through the Board of Directors (Board) of Presidential Bank, FSB, Bethesda, Maryland, OTS Docket No. 08186 (Association) and the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Southeast Region (Regional Director);

WHEREAS, the OTS, pursuant to 12 U.S.C. § 1818, has the statutory authority to enter into and enforce supervisory agreements to ensure the establishment and maintenance of appropriate safeguards in the operation of the entities it regulates; and

WHEREAS, the Association is subject to examination, regulation, and supervision by the OTS; and

WHEREAS, based on the September 8, 2009 Report of Examination of the Association (2009 ROE), the OTS finds that the Association has engaged in unsafe or unsound practices and/or violations of law or regulation; and

WHEREAS, in furtherance of their common goal to ensure that the Association addresses the unsafe or unsound practices and/or violations of law or regulation identified by the 2009 ROE, the Association and the OTS have mutually agreed to enter into this Agreement; and

WHEREAS, on April 29, 2010, the Association's Board, at a duly constituted meeting, adopted a resolution (Board Resolution) that authorizes the Association to enter into this Agreement and directs compliance by the Association and its directors, officers, employees, and other institution-affiliated parties with each and every provision of this Agreement.

NOW THEREFORE, in consideration of the above premises, it is agreed as follows:

Growth.

1. Effective immediately, the Association shall not increase its total assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities during the prior quarter without the prior written notice of non-objection of the Regional Director. The growth restriction imposed by this Paragraph shall remain in effect until the Association receives the Regional Director's written notice of non-objection of its Business Plan pursuant to Paragraph 2 of this Order

Business Plan.

2. Within sixty (60) days, the Association shall submit an updated comprehensive business plan for the remainder of calendar year 2010 and all of calendar years 2011 and 2012 (Business Plan) that is acceptable to the Regional Director. At a minimum, the Business Plan shall include:

- (a) plans and strategies to restructure the Association's operations, strengthen and improve the Association's earnings, reduce expenses, lower the Association's credit risk exposure, and achieve positive core income and profitability on a consistent basis;
- (b) strategies for ensuring that the Association has the financial and personnel resources necessary to implement and adhere to the Business Plan, adequately support the Association's risk profile, maintain compliance with applicable regulatory capital requirements, comply with this order, and maintain appropriate levels of liquidity;
- (c) quarterly pro forma financial projections (balance sheet, capital forecasts, and income statement) and budget; and
- (d) identification of all relevant assumptions made in formulating the Business Plan and retention of documentation supporting such assumptions.

3. Upon receipt of written notification from the Regional Director that the Business Plan is acceptable, the Association shall implement the Business Plan. A copy of the Business Plan and the Board meeting minutes reflecting the Board's adoption thereof shall be provided to the Regional Director within ten (10) days after the Board meeting.
4. Any material modifications¹ to the Business Plan must receive the prior written non-objection of the Regional Director. The Association shall submit proposed material modifications to the Regional Director at least forty-five (45) days prior to implementation.
5. Within thirty (30) days after the close of each calendar quarter, beginning with the first calendar quarter following receipt of Regional Director non-objection to the Business Plan, the Board shall review quarterly variance reports on the Association's compliance with the Business Plan (Variance Reports). The Variance Reports shall:
 - (a) identify material variances in the Association's actual performance during the preceding quarter as compared to the projections set forth in the Business Plan;
 - (b) contain an analysis and explanation of identified variances; and
 - (c) discuss the specific measures taken or to be taken to address identified variances.
6. A copy of the Variance Reports shall be provided to the Regional Director within ten (10) days after the Board meeting.

Problem Assets.

7. Within sixty (60) days, the Association shall implement and adhere to a detailed, written

¹ A modification shall be considered material under this Section of the Order if the Association plans to: (a) engage in any activity that is inconsistent with the Business Plan; or (b) exceed the level of any activity contemplated in the Business Plan or fail to meet target amounts established in the Business Plan by more than ten percent (10%), unless the activity involves assets risk-weighted fifty percent (50%) or less, in which case a variance of more than twenty-five percent (25%) shall be deemed to be a material modification.

plan with specific strategies, targets and timeframes to reduce² the Association's level of criticized assets³ (Problem Asset Plan). At a minimum, the Problem Asset Plan shall include the preparation of individual written specific workout plans for each criticized asset and delinquent loan or group of loans to any one borrower or loan relationship of One Million Dollars (\$1,000,000.00) or greater (Asset Workout Plans).

8. Within thirty (30) days after the end of each calendar quarter, beginning with the quarter ending June 30, 2010, Management shall prepare a quarterly written asset status report (Asset Report). The Asset Report shall include, at a minimum:

- (a) the current status of all Asset Workout Plans;
- (b) a detailed analysis of the calculation and adequacy of the Association's ALLL levels and comparison of ALLL levels to the total level of classified assets;
- (c) a comparison of classified assets to core and risk based capital;
- (d) a comparison of classified assets at the current quarter end with the preceding quarter;
- (e) a breakdown of classified assets by type (residential, acquisition and development, construction, land loans, etc.);
- (f) an assessment of the Association's compliance with the Problem Asset Plan; and
- (g) a discussion of the actions taken during the preceding quarter to reduce the Association's level of criticized assets and delinquent loans.

9. A copy of the quarterly Asset Report shall be provided to the Regional Director.

² For purposes of this Paragraph, "reduce" means to collect, sell, charge off, or improve the quality of an asset sufficient to warrant its removal from adverse criticism or classification.

³ The term "criticized assets" shall include all classified assets, assets designated special mention, all nonperforming assets and all delinquent loans.

Concentrations of Credit.

10. Within sixty (60) days, the Association shall prepare an updated written program to identify, monitor, and manage risks associated with concentrations of credit that is acceptable to the Regional Director (Credit Concentration Program). At a minimum, the Credit Concentration Program shall:

- (a) address all recommended corrective actions set forth in the 2009 ROE relating to concentrations of credit;
- (b) establish comprehensive and reasonable loan concentration limits expressed as a percent of total risk-based capital, and document the appropriateness of such limits, inclusive of each primary and identifiable sub category of commercial real estate related assets (i.e. construction, multi-family, land, nonresidential, and nonmortgage commercial loans), as well as an aggregate concentration limitation for all such commercial real estate related assets;
- (c) establish stratification levels and enhanced risk analysis, monitoring, and management of the concentrations of credit in single family construction loans, nonresidential mortgage loans, loans secured by hotels/motels, and non-qualifying multi-family loans;
- (d) contain specific review procedures and reporting requirements, including written reports to the Board, designed to identify, monitor, and control the risks associated with concentrations of credit; and
- (e) contain a written action plan, including specific time frames, for reducing the level of concentrations and the risks associated with the Association's concentrations of credit in commercial real estate related assets as defined in subsection (b) above.

11. Upon receipt of notification from the Regional Director that the Credit Concentration Program is acceptable, the Association shall implement and adhere to the Credit Concentration Program.

12. Within thirty (30) days after the close of each calendar quarter, beginning with the quarter ending June 30, 2010, the Association shall review the appropriateness of established concentration limits and the Association's compliance with the Credit Concentration Program, including the written action plan, to reduce the current level of concentrations.

Internal Asset Review and Classification.

13. Within sixty (60) days, the Association shall revise its written internal asset review and classification program (ARC Program) to address all recommended corrective actions set forth in the 2009 ROE relating to internal asset review, credit administration and asset classification.

Thereafter, the Association shall implement and adhere to the ARC Program. At a minimum, the ARC Program shall:

- (a) ensure the accurate and timely identification, classification, and reporting of the Association's assets, including the designation of loans as special mention or placement of loans on a watch list where a borrower's credit standing has significantly deteriorated;
- (b) improve the Association's loan grading system and specify parameters for the identification of "problem loans" for each category of loans offered by the Association;
- (c) establish specific review and classification standards for any loans where interest, loan fees, late fees, loan costs, or collection costs of problem loans have been capitalized into the loan balance;
- (d) establish specific policies, procedures, and requirements to obtain and analyze, on an annual basis, updated borrower financial information on all loans (other than those

secured by owner occupied single family dwellings and consumer loans) with an outstanding or committed balance greater than \$ One Million Dollars (\$1,000,000);

- (e) comply with regulatory guidance, including requiring specific valuation allowances or charge-offs for assets classified loss;
- (f) conform to applicable regulatory guidance;
- (g) require internal asset reviews and updates for commercial loans, nonresidential real property loans, construction loans, and land loans to be conducted not less than every six (6) months;
- (h) require monthly reports to the Board on the Association's adversely classified, special mention and delinquency ratios; and
- (i) continue the existing practice of engaging a qualified and experienced third party to conduct, at a minimum, annual reviews of the Association's loan portfolio and assessments of the Association's internal asset review process, including the Association's assignment of loan risk ratings.

Mortgage Banking.

14. Effective immediately, the Association: (a) shall not establish or create, enter into any agreement or arrangement relating to, or take any action toward establishing or creating any mortgage banking subsidiary, service corporation or joint venture with any third party without the prior written approval of the Regional Director; and (b) shall address all recommend corrective actions set forth in the 2009 ROE related to mortgage banking..

Board Oversight.

15. Within ninety (90) days, the Association shall identify a qualified and experienced person to be nominated to the Board. Within five (5) days after the end of each calendar month, the

Association shall provide the Regional Director with a written monthly update. The Association shall ensure that it complies with Paragraph No. 18 of this Agreement with regard to the addition of a new director to the Board.

Dividends.

16. Effective immediately, the Association shall pay no dividends or make any other capital distributions, as that term is defined in 12 C.F.R. § 563.141, without receiving the prior written non-objection of the Regional Director. The Association's written request for non-objection shall be submitted to the Regional Director at least forty-five (45) days prior to the anticipated date of the proposed dividend payment or distribution of capital.

Third Party Contracts.

17. Effective immediately, the Association shall not enter into any arrangement or contract with a third party service provider that is significant to the overall operation or financial condition of the Association⁴ or outside the Association's normal course of business unless, with respect to each such contract, Association has: (i) provided the OTS with a minimum of thirty (30) days prior written notice of such arrangement or contract; (ii) determined that the arrangement or contract complies with the standards and guidelines set forth in Thrift Bulletin 82a (TB 82a); and (iii) received written notice of non-objection from the Regional Director.

Directorate and Management Changes.

18. Effective immediately, the Association shall comply with the prior notification requirements for changes in directors and Senior Executive Officers⁵ set forth in 12 C.F.R. Part 563, Subpart H.

⁴ A contract will be considered significant to the overall operation or financial condition of the Association where the annual contract amount equals or exceeds two percent (2%) of the Association's total capital.

⁵ The term "Senior Executive Officer" is defined at 12 C.F.R. § 563.555.

Severance and Indemnification Payments.

19. Effective immediately, the Association shall not make any golden parachute payment⁶ or prohibited indemnification payment⁷ unless, with respect to each such golden parachute payment, the Association has complied with the requirements of 12 C.F.R. Part 359 and, as to indemnification payments, 12 C.F.R. § 545.121.

Employment Contracts and Compensation Arrangements.

20. Effective immediately, the Association shall not enter into, renew, extend or revise any contractual arrangement relating to compensation or benefits for any Senior Executive Officer⁸ or director of the Association, unless it first provides the OTS with not less than thirty (30) days prior written notice of the proposed transaction. The notice to the OTS shall include a copy of the proposed employment contract or compensation arrangement or a detailed, written description of the compensation arrangement to be offered to such officer or director, including all benefits and perquisites. The Board shall ensure that any contract, agreement or arrangement submitted to the OTS fully complies with the requirements of 12 C.F.R. Part 359, 12 C.F.R. §§ 563.39 and 563.161(b), and 12 C.F.R. Part 570 – Appendix A.

Brokered Deposits.

21. Effective immediately, the Association is prohibited from increasing the dollar amount of brokered deposits⁹ at the Association without receiving the prior written non-objection of the Regional Director. The Association's written request for non-objection shall be submitted to the Regional Director at least thirty (30) days prior to the anticipated date of acceptance of additional brokered deposits.

⁶ The term "golden parachute payment" is defined at 12 C.F.R. § 359.1(f).

⁷ The term "prohibited indemnification payment" is defined at 12 C.F.R. § 359.1(l).

⁸ The term "Senior Executive Officer" is defined at 12 C.F.R. § 563.555.

⁹ The term "brokered deposit" is defined at 12 C.F.R. § 337.6(a)(2).

Transactions with Affiliates.

22. Effective immediately, the Association shall not engage in any transaction with an affiliate unless, with respect to each such transaction, the Association has complied with the notice requirements set forth in 12 C.F.R. § 563.41(c)(4), which shall include the information set forth in 12 C.F.R. § 563.41(c)(3). The Board shall ensure that any transaction with an affiliate for which notice is submitted pursuant to this Paragraph, complies with the requirements of 12 C.F.R. § 563.41 and Regulation W, 12 C.F.R. Part 223.

Effective Date.

23. This Agreement is effective on the Effective Date as shown on the first page.

Duration.

24. This Agreement shall remain in effect until terminated, modified or suspended, by written notice of such action by the OTS, acting by and through its authorized representatives.

25. The Regional Director may extend any of the deadlines set forth in the provisions of this Agreement upon written request by the Association that includes reasons in support for any extension. Any OTS extension shall be made in writing.

Time Calculations.

26. Calculation of time limitations for compliance with the terms of this Agreement run from the Effective Date and shall be based on calendar days, unless otherwise noted.

Submissions and Notices.

27. All submissions to the OTS that are required by or contemplated by the Agreement shall be submitted within the specified timeframes.

28. Except as otherwise provided herein, all submissions, requests, communications, consents or other documents relating to this Agreement shall be in writing and sent by first class

U.S. mail (or by reputable overnight carrier, electronic facsimile transmission or hand delivery by messenger) addressed as follows:

- (a) To the OTS:
Regional Director
Office of Thrift Supervision
1475 Peachtree St., N.E.
Atlanta, Georgia 30309
404.897.1861 (Fax)
- (b) To the Association:
Presidential Bank, FSB
c/o Bruce Cleveland, Chairman
4600 East West Highway
Bethesda, Maryland 20814-3335
301.951.3513 (Fax)

No Violations Authorized.

29. Nothing in this Agreement shall be construed as allowing the Association, its Board, officers or employees to violate any law, rule, or regulation.

OTS Authority Not Affected.

30. Nothing in this Agreement shall inhibit, estop, bar or otherwise prevent the OTS from taking any other action affecting the Association if at any time the OTS deems it appropriate to do so to fulfill the responsibilities placed upon the OTS by law.

Other Governmental Actions Not Affected.

31. The Association acknowledges and agrees that its execution of the Agreement is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 29 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Association that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than the OTS.

Miscellaneous.

32. The laws of the United States of America shall govern the construction and validity of this Agreement.

33. If any provision of this Agreement is ruled to be invalid, illegal, or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality, and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise.

34. All references to the OTS in this Agreement shall also mean any of the OTS's predecessors, successors, and assigns.

35. The section and paragraph headings in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

36. The terms of this Agreement represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

Enforceability of Agreement.

37. This Agreement is a "written agreement" entered into with an agency within the meaning and for the purposes of 12 U.S.C. § 1818.

Signature of Directors/Board Resolution.

38. Each Director signing this Agreement attests that he or she voted in favor of a Board Resolution authorizing the consent of the Association to the issuance and execution of the Agreement. This Agreement may be executed in counterparts by the directors after approval of execution of the Agreement at a duly called board meeting. A copy of the Board Resolution

authorizing execution of this Agreement shall be delivered to the OTS, along with the executed original(s) of this Agreement.

WHEREFORE, the OTS, acting by and through its Regional Director, and the Board of the Association, hereby execute this Agreement.

PRESIDENTIAL BANK, FSB
Bethesda, Maryland

OFFICE OF THRIFT SUPERVISION

By: /s/

A. Bruce Cleveland
Chairman of the Board

By: /s/

James G. Price
Regional Director, Southeast Region

BOARD OF DIRECTORS

/s/
George S. Jenkins
Director

/s/

Bruce R. Katz
Director

/s/

William P. McCauley
Director